

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

R. DALE GRIMES
TEL: (615) 742-6244
FAX: (615) 742-2744
dgrimes@bassberry.com

AMSOUTH CENTER
315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

10 OCT 12 PM 1 3

OTHER OFFICES

NASHVILLE MUSIC ROW
KNOXVILLE
MEMPHIS

EXECUTIVE SECRETARY

October 12, 2001

VIA HAND DELIVERY

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

*Re: Petition of United Telephone Company to Change and Increase Certain Intrastate Rates and Charges So As to Permit It To Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Telephone Service to Its Customers in Tennessee and To Adopt New and Realistic Depreciation Rates for Central Office Equipment.
Docket No. 01-00451*

Dear Mr. Waddell:

Pursuant to and in compliance with the Pre-Hearing Officer's Order granting Agreed Motion and Amending Procedural Schedule dated September 7, 2001, on behalf of United Telephone Company, we are filing herewith the original and 13 copies of the Rebuttal Testimony of Joe M. Enoch. Also enclosed is an additional copy of the Rebuttal Testimony, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions with respect to this filing, please do not hesitate to contact me.

Mr. K. David Waddell
October 12, 2001
Page 2

Very truly yours,

A handwritten signature in black ink, appearing to read "R. Dale Grimes". The signature is fluid and cursive, with the first name "R." being prominent and the last name "Grimes" written in a continuous script.

R. Dale Grimes

RDG/gci

Enclosures

cc: J. Richard Collier, Esq. (w/ enclosures)
R. Terry Buckner, Esq. (w/ enclosures)
Vance L. Broemel, Esq. (w/ enclosures)
Joe Shirley, Esq. (w/ enclosures)
Gary Hotvedt, Esq. (w/ enclosures)
Mr. Herb Bivens (w/ enclosures)
Mr. Joe M. Enoch (w/ enclosures)
T.G. Pappas, Esq. (w/ enclosures)

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE: PETITION OF UNITED TELEPHONE COMPANY TO CHANGE AND INCREASE CERTAIN INTRASTATE RATES AND CHARGES SO AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING TELEPHONE SERVICE TO ITS CUSTOMERS IN TENNESSEE AND TO ADOPT NEW AND REALISTIC DEPRECIATION RATES FOR CENTRAL OFFICE EQUIPMENT.

DOCKET NO. 01-00451

REBUTTAL TESTIMONY
OF
JOE M. ENOCH

Filed
October 12, 2001

1 **Q. Please state your name for the record.**

2 A. My name is Joe M. Enoch.

3 **Q. Mr. Enoch, you have previously submitted testimony and exhibits**
4 **regarding the Petition of United Telephone Company and have recently**
5 **received the testimony and exhibits as prepared by Mr. Joe Shirley of**
6 **the staff of the TRA and Mr. Terry Buckner of the Consumer Advocate**
7 **and Protection Division (CAPD). Have you reviewed their testimony and**
8 **exhibits and if so what have you noted?**

9 A. Yes, I have reviewed their testimony and exhibits. The most glaring difference
10 between the results as prepared by these two witnesses and my previous
11 testimony and exhibits is in regards to the forecast of "Local Service
12 Revenues" and "Network Access Revenues". While there are several minor
13 differences in the testimony presented, in my opinion the difference in the
14 revenue forecasted overshadows the other issues.

15 **Q. Did you have any problems with the testimony and exhibits provided by**
16 **Mr. Shirley and Mr. Buckner?**

17 Yes, since Mr. Shirley and Mr. Buckner developed Local Service Revenue
18 and Network Access Revenue in a similar manner with very similar results, I
19 have prepared my rebuttal for those areas of revenue.

20 **Q. Can you explain how you believe their forecast is incorrect?**

21
22 A. Yes, they have developed their local service revenue forecast using their
23 forecast of access lines and average revenue per access line based on 2000
24 data. The Company believes that the year 2001 is reflecting different results

1 that vitally impact the forecast of revenue using their methodology. The areas
2 served by the Company and as well as the entire nation are going through an
3 economic downturn. The depth and length of this economic situation can not
4 be determined. Therefore, I believe it would be inappropriate to use any
5 historical data that does not include the most recent financial data available
6 that indicates less access line growth than historical trends and less revenue
7 per access line.

8 **Q. In preparing your rebuttal to Mr. Buckner and Mr. Shirley has anything**
9 **come to your attention that affects the development of local service**
10 **revenue using Mr. Buckner and Mr. Shirley's methodology?**

11 A. Yes, I was confused as to why there would be an increase in average
12 revenue per access line for each year as they demonstrated on their exhibits.
13 After a great deal of study, Company personnel discovered that due to a
14 programming error, the ISDN lines added over the last few years were not
15 being added to the computerized access line count.

16 **Q. What impact would that have on the average revenue per access line as**
17 **computed by Mr. Buckner and Mr. Shirley?**

18 A. The inclusion of the revenue without the corresponding access line increased
19 the average revenue per line by approximately \$3 for 2000 and for the first six
20 months of 2001.

21

1 Q. In addition to this failure to use the most recent data available did Mr.
2 Buckner and Mr. Shirley, in your opinion use improper data in
3 developing the number of access lines?

4 A. Yes, both Mr. Buckner's Exhibit 2, page 4 of 62, and Mr. Shirley's Exhibit C-
5 03 used the total number of access lines which includes non revenue
6 generating lines such as employee lines, internal Company lines, etc. In my
7 opinion, only the number of lines generating revenue should be used to
8 forecast local service revenue.

9 Q. Have you quantified the current data using their methodology to
10 develop local service revenue?

11 A. Yes, using the current access line growth experienced in 2001 through
12 August, the growth % would be 5.5% as compared to Mr. Buckner's rate of
13 growth of 6.06% found on the same Exhibit 2, page 4 of 62. Mr. Shirley's
14 Exhibit C-03 does reflect actual growth of total access lines through April,
15 2001 at 6.73%. However, in May 2001 the Company lost several lines at the
16 Tennessee State Fire School that reduced their billing approximately \$1,200
17 per month. And it is my understanding that further access lines at that facility
18 have been reduced resulting in another \$1,200 per month reduction in their
19 billing. The reason for some of the access line reduction at the Fire School is
20 the State's budget impasse which has delayed the opening of the Fire School
21 indefinitely.

22 Q. Besides the Fire School, has the Company had other large commercial
23 customers terminate service?

1
2 A. Yes, a local internet provider that was billed \$2,711 per month and a medical
3 lab that was billed \$1,973 per month have terminated service. The loss of
4 businesses such as these impact the average revenue per access line. Using
5 revenue through June 2001 results in less revenue per access line than Mr.
6 Buckner and Mr. Shirley have forecast for 2001.

7 **Q. Does your 2001 average revenue per access line differ from their**
8 **calculation?**

9 A. Yes, I have calculated average revenue per revenue generating access line
10 of \$218.43 for 2001 using the actual local service revenue for the first six
11 months of 2001 of \$1,566,830 with an average revenue generating access
12 lines for the same period of 14,339. While Mr. Buckner's calculation of
13 \$236.41 on Exhibit 2, page 5 of 62 and Mr. Shirley's calculation of \$234.09 on
14 Exhibit C-02 are based on 2000 information compounded for a growth factor.
15 In calculating their average revenue per line, Mr. Buckner and Mr. Shirley
16 again used total access lines including the non-revenue generating access
17 lines. The average revenue per access line as calculated for 2001 is actually
18 down from the 2000 level when using actual data.

19 **Q. Mr. Enoch, why do you believe that the average revenue per line is down**
20 **in 2001 from the average revenue amount per access line calculated by**
21 **Mr. Buckner and Mr. Shirley?**

22 A. The impact of the current economic situation that the telephone industry is
23 experiencing is effecting the customer usage. In my opinion this is due to
24 changes in available technology with cellular and PCS services and it is at

1 least an important cause of the destabilization of the average revenue per
2 access line. Additionally, the loss of some commercial customers noted
3 above that were high revenue per access line reduces total revenue more
4 than the loss of a residential line. Additionally, the loss of some commercial
5 customers noted above that were high revenue per access line reduces total
6 revenue more than the loss of a residential line.

7 **Q. How did Mr. Buckner and Mr. Shirley calculate average revenue per**
8 **access line for 2001 and 2002?**

9 A. Mr. Buckner used a growth rate of 5.27% applied to his \$224.58 average
10 revenue per access line for 2000 to arrive at an average revenue per access
11 line of \$236.41 and compounded the 2001 amount at the same growth rate of
12 5.27% to arrive at his average for 2002 of \$248.87. Mr. Shirley followed the
13 same logic and used a growth rate of 4.79% resulting in an average revenue
14 per access line for 2001 and 2002 of \$234.09 and \$245.30 respectively based
15 on his average revenue per access line of \$223.39 for 2000.

16 **Q. Do you believe that Mr. Buckner's and Mr. Shirley's average revenue**
17 **per line for 2001 and 2002 is reasonable?**

18 A. No, I do not. Considering that the actual revenue for local service revenues is
19 only up \$11,661 for the six months ended June 30, 2001 at \$1,566,830 from
20 2000 levels for the same period of \$1,555,169, I do not believe their growth in
21 local service as forecasted by Mr. Buckner and Mr. Shirley is reasonable.
22 The \$11,661 is only a .7% increase as compared to Mr. Buckner's and Mr.
23 Shirley's increase % of 11.65% on Exhibit 2, page 1 of 62 of Mr. Buckner's

1 Exhibits and 11.84% imputed into Mr. Shirley's Exhibit C-02 which are both
2 based on 1999 and 2000 local service revenue results. I do not think this is
3 reasonable or represents what is happening in the telephone industry and in
4 the area the Company is serving.

5 **Q. What difference do you project between Mr. Buckner and Mr. Shirley's**
6 **forecast and your forecast using the current data for local service**
7 **revenue for 2002?**

8 A. When the forecasted number of access lines for 2002 is multiplied times the
9 most recent average revenue per access line of \$218.43, local service
10 revenue for 2002 results in a total of \$3,353,993 as compared to Mr.
11 Buckners's forecast of \$3,909,858 a difference of \$555,865 less revenue. As
12 compared to Mr. Shirley's forecast of \$3,923,574, a difference of \$569,581
13 results. I believe the use of the average revenue per access line of \$218.43
14 without any adjustment for any further decrease or any increase is reasonable
15 since the 2001 trend has indicated a decrease in the average revenue per
16 access line.

17 **Q. Are there other areas of their testimony as to revenue that you believe**
18 **are inaccurate and therefore should be reconsidered?**

19 A. Yes, their network access revenues appear to be overstated when current
20 trends experienced in 2001 are considered. In previously submitted
21 testimony, I tried to reflect the uncertainty of the stability of network access
22 revenue. They have not, in my opinion, taken this instability in their

1 consideration of the proper level of reductions that could offset the increase in
2 usage.

3 **Q. In your review did you note any areas that you believe Mr. Buckner and**
4 **Mr. Shirley have incorrectly applied information provided by the**
5 **Company in their forecast of Network Access Revenue?**

6 A. Yes, they used the gross settlement amounts in their development of
7 Interstate Access Revenue as stated on Mr. Buckner's Exhibit RTB-111 and
8 Mr. Shirley's Exhibit C-07. The Company in its response to Item 10 of the
9 data request from the Consumer Advocate provided the reconciling
10 information that indicates that staff has used an amount of \$3,420,441 that
11 does not include the reductions for adjustments as detailed below for the year
12 2000 to forecast 2001 and 2002 Interstate Access Revenue when in fact it
13 should be \$3,192,404. By using the gross revenue, Mr. Buckner and Mr.
14 Shirley have not allowed for the adjustments that are a part of the average
15 settlement process. The impact of the 1.9% increase in Traffic Sensitive
16 switched access and the 10.3% increase in the CCL rate should impact
17 revenue by approximately \$110,000 if the gross revenue amounts are used to
18 make the calculation. In 2000, the Company's access revenue settlement
19 was reduced for time sensitive adjustments of \$51,305, CCL adjustments of
20 \$96,834, universal service adjustments of \$32,931, an over earnings charge
21 of \$49,085 and other minor adjustments netting to a reduction of less than
22 \$8,150 which totals less revenue of \$238,305 to account for most of the

1 difference between the amount Mr. Buckner and Mr. Shirley used (asserting a
2 \$500,000 understatement) and the proper total.

3 **Q. Since you disagree with Mr. Buckner and Mr. Shirley's forecast of one of**
4 **the four factors that make up Network Access Revenues, have you**
5 **quantified other information and compared it to their forecast?**

6 A. Yes. I believe the trends and actual results experienced in 2001 show that
7 network access revenues have in fact decreased. Actual network access
8 revenue for the six months ended June 30, 2001 was \$3,222,652.89 which
9 when annualized for the year calculates to \$6,445,305.78. Network access
10 revenue for 2001 is stated at \$6,816,274 by Mr. Buckner and \$6,724,459 by
11 Mr. Shirley compared to my annualized network access revenue above
12 indicates an overstatement of \$370,968 and \$279,153 respectively.

13 **Q. What impact do you believe these recent trends have on the network**
14 **access revenues for 2002, the attrition year?**

15 A. I believe it would be reasonable to project that this revenue will remain stable
16 as settlement rates decrease offsetting the increase in the number of access
17 lines. The other approach is to forecast continued growth in the face of the
18 declining revenues experienced in 2001. That to me is not a realistic
19 approach and ignores actual available information. I believe that using the
20 annualized revenues for 2001, \$6,445,306, will demonstrate a significant
21 difference between our forecast and their forecast. Using the annualized
22 totals, the overstatement is \$593,045 by Mr. Buckner and \$547,453 by Mr.
23 Shirley.

1 **Q. Is there another source of revenue that needs to be considered in your**
2 **rebuttal?**

3 A. Yes, miscellaneous revenue has various sources, one of which is Billing and
4 Collection Revenue. The rate paid by BellSouth to the Company has been
5 drastically reduced. I was not aware of the changes in the rate per message
6 at the time I prepared my previous testimony and exhibits. From my review of
7 Mr. Shirley's exhibit , I believe he has taken in consideration the reduction in
8 rates and revenue while Mr. Buckner has not. There is approximately
9 \$91,402 overstatement in Mr. Buckner's Miscellaneous Revenue total.

10 **Q. Is there any part of Mr. Shirley's testimony that you would like to take**
11 **issue?**

12 A. Yes, Mr. Shirley proposed to include the revenues of UTC Long Distance
13 (UTCLD) in the allocation of general administrative and management
14 expenses while at the same time increasing the Billing and Collection revenue
15 paid by UTCLD to the Company. I do not believe it is equitable to not match
16 revenue and expense in this regard if any adjustment is going to impact the
17 amount of operating expenses.

18 **Q. Mr. Enoch, do you have an overall observation regarding the**
19 **development of revenue for the Company for the attrition year?**

20 A. Yes, the combined overstatements of local service and network access
21 revenues have a definite and dramatic impact on the results of the rate study.
22 If you choose to ignore the current economic downturn and its impact on
23 United Telephone Company, the request for rate relief should be denied. If

1 you choose to look at the reality of the economic downturn, both Mr. Buckner
2 and Mr. Shirley have overstated their revenue forecasts in excess of
3 \$1,000,000.

4 **Q. Have you determined the impact on Total Operating Revenues?**

5 A. Yes, I have used the above stated Local Service Revenue total for 2002 of
6 \$3,353,993 and the annualized 2001 total for Network Access Revenue of
7 \$6,445,306. This results in projected Total Operating Revenue of
8 \$10,298,954 as compared to Mr. Buckner's projected total of \$11,541,316 on
9 Exhibit 1, Schedule 4, a difference of \$1,242,362. Compared to Mr. Shirley's
10 total of \$11,407,117, the difference is \$1,108,163. After factoring in the effect
11 on Operating Taxes, Operating Income calculates to \$2,567,604 as compared
12 to Mr. Buckner's Operating Income of \$3,338,365 on Exhibit 1, Schedule 3, a
13 difference of \$770,761. I have not determined the difference to Mr. Shirley's
14 Operating Income since he did not adjust depreciation in his Exhibits A-01 and
15 A-04.

16 **Q. Given the reduced revenue total, what impact does that have on the**
17 **Earned Rate of Return and any Revenue (Deficiency) Excess?**

18 A. The Earned Rate of Return on Rate Base calculates to 6.31% as compared to
19 their total of 8.21%. This 6.31% Rate of Return is below the staff calculated
20 Fair Rate of Return of 7.87%. This results in an Operating Income Deficiency
21 of \$632,176 and after application of the revenue conversion factor a Revenue
22 Deficiency of \$1,045,109.

1 **Q. What is your response to Mr. Buckner's statement regarding the**
2 **contradiction in the Company's forecast of less access line growth**
3 **while the Company's investment in plant continues to increase?.**

4 A. Mr. Buckner is well aware that any telephone company has a large portion of
5 any plant growth in providing facility capacity that will allow for continued
6 customer growth. Within the Company's service area, over 9,000 residential
7 lots are in the planning to development stage. The Company must have the
8 capacity to provide telephone service to those future customers when that
9 customer is ready for service. The Company must be in the position with
10 additional line capacity in place as these developments become reality to
11 provide telephone service, not when the customer calls to begin the
12 construction of facilities that could take months to complete.

13 **Q. Did staff agree with the Company's request for changes in depreciation**
14 **rates for Central Office Equipment (COE)?**

15 A. Mr. Buckner apparently agreed with the request to change to a 12.5-year life
16 for COE. Mr. Shirley proposed that the rate be adjusted to 7% which
17 calculates to an estimated life of approximately 14.28 years. Considering that
18 technology is ever evolving, I believe the request for the 12.5 depreciable life
19 is reasonable..

20 **Q. Mr. Enoch, would you like to comment on any other matter that was**
21 **included in their testimony?**

1 A. Yes, they were quite critical of Company's present financial condition
2 attributing the Company's investment in "other non-traditional wire-line
3 activities." I find it disturbing that they are critical of the Company's effort to
4 diversify its operation into areas that are "non-traditional" but quite in tune with
5 the future of the telecommunication industry.

6 **Q. What conclusion do you have regarding the need for the rate relief**
7 **requested by the Company?**

8 A. While there are numerous other areas that I could analyze and possibly agree
9 or disagree with Mr. Buckner and Mr. Shirley's testimony and exhibits, I
10 believe the difference in forecast revenue as I stated in the beginning of this
11 rebuttal is the central issue. The Company requested additional rate relief in
12 the form of additional local service rates that is estimated to provide \$630,465
13 additional revenue. The Company also requested increased rates for service
14 orders that are estimated to provide \$180,629 in additional revenue. The total
15 of the request is \$811,094 which is less than the Revenue Deficiency of
16 \$1,045,109 noted above. With the uncertainty of the forecasts prepared by
17 both myself and staff, the difference should be disregarded and the Company
18 allowed to implement the requested rate relief.

19 **Q. Does this conclude your rebuttal testimony?**

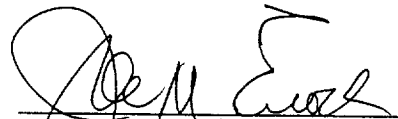
20 A. Yes sir.

STATE OF TENNESSEE

COUNTY OF DYER

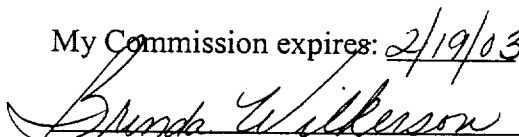
BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Joe M. Enoch, who, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of United Telephone Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the foregoing twelve pages.


Joe M. Enoch

Sworn to and subscribed before me
This 11th day of October, 2001.

My Commission expires: 2/19/03


Notary Public